Competitively Priced Electricity Costs More, Studies Show

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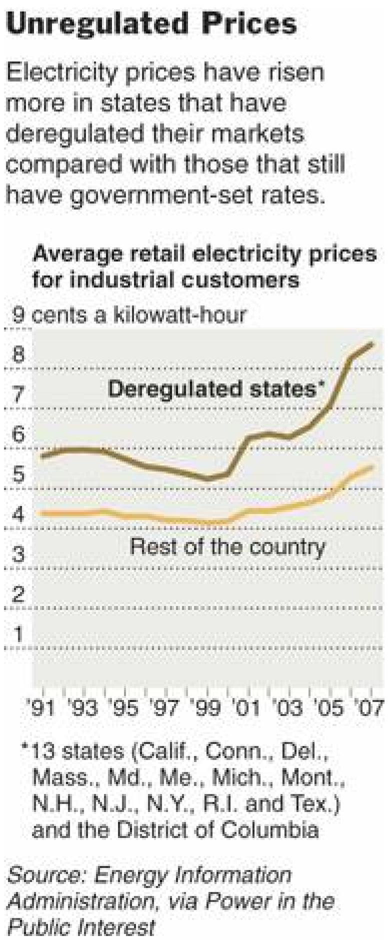

Retail electricity prices have risen much more in states that adopted competitive pricing than in those that have retained traditional rates set by the government, new studies based on years of price reports show.

The findings, by advocates for both sides in the market-versus-regulation debate, raise questions about the reasons market competition produced higher retail prices than government regulation.

The difference in prices charged to industrial companies in market states compared with those in regulated ones nearly tripled from 1999 to last July, according to the analysis of Energy Department data by Marilyn Showalter, who runs Power in the Public Interest, a group that favors traditional rate regulation.

The price spread grew from 1.09 cents per kilowatt-hour to 3.09 cents, her analysis showed. It also showed that in 2006 alone industrial customers paid $7.2 billion more for electricity in market states than if they had paid the average prices in regulated states.

Mrs. Showalter compared prices in 13 states and Washington, all of which have adopted market pricing for industrial users, with the rest of the nation. The 13 states are California, Connecticut, Delaware, Maine, Maryland, Massachusetts, Michigan, Montana, New Hampshire, New Jersey, New York, Rhode Island and Texas. Montana is returning to regulated pricing.

"Since 1999, prices for industrial customers in deregulated states have risen from 18 percent above the national average to 37 percent above," said Mrs. Showalter, an energy lawyer and former Washington State utility regulator.

In regulated states, prices fell from 7 percent below the national average to 12 percent below, she calculated.

That means the difference between market and regulated states nearly doubled, from 25 percentage points to 49 percentage points.

A separate study for the Electric Power Supply Association, which represents independent power generators and favors market pricing, reported last week that retail prices for all customers "rose only slightly higher" than prices in regulated states. A footnote showed that the prices rose 15 percent more in market states than in regulated states.

Both studies relied on the same Energy Information Administration data , but the supply association counted five more states — Arizona, Illinois, Ohio, Pennsylvania and Virginia — as market states.

In those five states, the government imposed rate cuts, freezes or caps, some of which are still in effect for residential and some other customers. John Shelk, president of the supply association, said that but for efforts to create competitive markets, government would not have ordered lower prices during a transition from regulation to market pricing. Therefore, he reasoned, government-mandated savings should be included in calculating the benefits of market pricing.

Susan F. Tierney of the Analysis Group, a former assistant secretary for policy at the Energy Department during the Clinton administration who conducted the study, said that improvements were needed in both the market and regulated pricing systems.

A larger concern, Dr. Tierney said, is how to deal with rising electricity prices driven by the demands of global economic and technological growth, rising fuel prices and the costs of countering atmospheric damage from burning fossil fuels.

“Focusing more on those improvements seems more constructive than fighting about whether competition or traditional regulation is the best path,” she added.

The data are the latest to show that competition, which was promoted by big industrial companies and Enron as the best way to create competitive incentives to reduce prices, has instead resulted in higher and faster rising prices. Some big industrial customers have turned against the changes they once championed, saying that if markets produced lower prices they would favor them but that electricity auctions have not worked.

In market states, electricity customers of all kinds, from homeowners to electricity-hungry aluminum plants, pay $48 billion more each year for power than they would have paid in states with the traditional system of government boards setting electric rates, according to Mrs. Showalter’s analysis of Energy Department data in an earlier report in September.

Under the rules of these markets, every electric power generator whose bid is accepted gets the highest price paid to supply power, called a clearance price or single-price market. In most auctions, each supplier gets the price at which they offered to sell, known as an as-bid market.

One result of clearance pricing is that nuclear power plants, which must run at a steady rate even when demand for power is minimal, have at times collected $990 per kilowatt-hour for power they had offered to give away during low-demand hours.

Gordon van Welie, president of the New England Independent System Operator, which runs the electricity market in that region, said that clearance pricing avoids the costs and risks of taking nuclear plants offline that would occur in an as-bid market if the price they sought was too high to attract any buyers.

Mr. Van Welie said he anticipated steady improvements in the efficiency of the auction markets over the next few years as rules are refined, and pointed to a report showing that wholesale prices in all markets declined last year compared with 2005, in contrast to the rise in retail paid by those who use the power.